97 annual report

ATLANTIC TELECOM GROUP PLC CHAIRMAN'S REPORT

CHAIRMAN'S REPORT

REVIEW

The year to 31 March 1997 has been a milestone year in the history of the Group. In my report of last year I was looking forward to moving the direction of the Group towards the introduction of telecommunications services through the wireless activities of our wholly owned subsidiary company, Atlantic Telecommunications Ltd. This is now a reality. We undertook a very successful Placing and Open Offer in October 1996 which raised approximately £23.2M net of expenses and on 30 October 1996 we launched commercial telephony services in the City of Glasgow utilising one of the first fixed radio access networks to be deployed in a dense urban environment anywhere in the world. Some eight weeks prior to the launch, we entered the UK telecommunications market by acquiring Logicall Telecommunications Ltd, a telephone services company supplying least cost routing and call traffic management services to its customers. We also, of course, changed our name to Atlantic Telecom Group PLC on 13 August 1996.

clearly a milestone year in the history of the Atlantic Telecom Group

It is extremely gratifying to note that in the short space of time since entering the telecommunications market, 12% of our annual turnover has come from telephony services, a proportion which will grow significantly in the future as we continue to maximise our efforts on this business activity.

As indicated in my half year statement, following the launch of commercial services in Glasgow, the ongoing overhead in the fixed radio access business, which was capitalised up to service launch, is now being expensed to the profit and loss account. This, as anticipated, has impacted the result for the full year. The loss for the period of £2.8M is, however, significantly better than we expected, particularly as the figure includes a provision of £1.0M for the loss that will arise in connection with the sale or closure of the networks which make up the narrowband cable business. This business continues to decline and the Board are taking active steps to dispose of these operations.

Your Board decided earlier this year to report its telecommunications statistics on a quarterly basis and the statistics for the quarter to 31 March 1997 were reported on 15 April. They can be found in the Operational and Financial Review. It is our intention to continue to report statistics quarterly.

FIXED RADIO ACCESS TELEPHONY OPERATIONS

Our fixed radio access operations in Glasgow have achieved an initial level of take up far greater than we anticipated. Our innovative marketing platform has helped differentiate Atlantic from other telephone providers and we have been able to position ourselves as a company that is not just bringing choice to the market, but is bringing a level and range of services which are priced and packaged innovatively. In addressing the market our aim was to package our services in a way which was different from others whilst ensuring that we were price competitive. The introduction of a single tariff for the whole of Scotland coupled with the ability to buy time in Scotland at fixed rates through the concept of bundled minutes has been attractive to our customers. We launched the network in the City centre on 30 October 1996 with 15 operational base stations, a coverage of about 16% of the total service area, which had increased to about one third of the total service area by 31 March 1997. Our intention is to continue to build out the network during the current year ending 31 March 1998 with an expectation that in the Glasgow area it will be substantially complete by then. This is a very quick roll out, many years faster than could be achieved from an underground wired network.

LEAST COST ROUTING SERVICES

Logicall Telecommunications Ltd., acquired in early September 1996, has done well since acquisition. Rebranded Atlantic Logicall in April 1997, we are developing Logicall as a provider of telecommunications services throughout the United Kingdom and have recently introduced a range of freephone and chargecard services, as well as continuing its managed telecom service aimed mainly at larger businesses.

CABLE TELEVISION

With the sale of our broadband network in Coventry early in the year, the results mainly reflect the operations of our sole remaining broadband system in Aberdeen and our various declining narrowband systems in England. Aberdeen has, once again, produced record growth and I am delighted to report our eleventh year of continuous year-on-year growth in it's customer base. The service now carries over 50 programme strands across 41 channels and we continue to deliver average revenues per customer ahead of the industry average.

OUTLOOK

This year will see us consolidate and build on our innovative approach to the telephony market. The interest being shown in our services has been extremely encouraging and we are experiencing continuing growth in our line base.

I am delighted to report that our Scottish telecommunications licence came into force when it was signed by the new Government Minister on 6 June 1997 and this important development lays the foundations for the Group's service areas to expand to other parts of Scotland.

Many of our staff have moved successfully from a developmental to an operational role and I congratulate them in achieving that change. All our people contribute to our growth and the Group is well placed to take advantage of the exciting developments in this very dynamic industry.

Graham J Duncan
EXECUTIVE CHAIRMAN, 17 June 1997

97 annual report

OPERATING & FINANCIAL REVIEW

OPERATING REVIEW

The year to 31 March 1997 was one of excellent progress for the group. We entered the telephony business in early September 1996 with the acquisition of Logicall Telecommunications Ltd., a small but expanding niche company providing least cost routing and call management services to its customers. This gave us an understanding of indirect access services, that is where the BT network is used to initially carry the call which is then routed by our equipment to different carriers. We are pleased to have been able to bring Logicall's lines under management to 4,222 lines at 31 March 1997, an increase of 35% since our acquisition.

The majority of our effort has, however, gone into the development, trialling and subsequent launch of commercial services in the City of Glasgow using our fixed radio access network. Building the first stages of the network, employing and training our people and interfacing our sales, marketing, engineering, billing and customer services operations was a major achievement. We moved to a commercial launch on 30 October 1996, and at 31 March 1997 had connected 2,551 lines across 1,373 customers, generating average revenues per customer of £39.92 per month (excluding VAT) for the period from launch to 31 March 1997. Furthermore, at 31 March 1997 we had 2,549 lines pending installation. The disconnection rate to 31 March 1997 has been minimal, with only 27 lines disconnected.

Aberdeen Cable Services Ltd., the broadband cable television operator for the City of Aberdeen has, once again, lifted its customer base to a new year end high at 17,392 customers, compared to 16,904 at 31 March 1996. The average revenue per customer of £26.68 per month (excluding VAT) is more than 25% higher than the UK industry average as recently reported by the ITC. Our pricing strategy is geared towards achieving higher than average revenues and high quality margins and this policy is well shown by the results. The churn figure for the year is 25.7% and has consistently stayed within a narrow 24% to 26% band for the last four years.

The customer base of our narrowband cable company has fallen to 9,673 at 31 March 1997, compared to 13,044 at 31 March 1996. It is our intention to exit this business as soon as practicable and the financial statements reflect a provision of £1.0M for the write down of certain assets and to provide for certain closure costs.

The operating results for the year reflect one months operations from Coventry Cable Ltd. which, as already reported, was sold in late April 1996.

The gross margins being achieved in the various elements of the business show the dynamics which apply to the various markets in which the group operates. The gross margin in Aberdeen, that is subscriber revenues less charges to programme suppliers, was 45.2% for the year. There has been a consistent drop in margins over the last few years caused by new service launches, where the costs are not always passed on to customers and increasing costs from that company's principal suppliers, most noticeably BSkyB.

In the fixed radio access business there is, through the interconnect regime, a largely regulated arrangement designed to encourage competition and Atlantic Telecommunications Ltd. the operating company has achieved a gross margin, that is customer revenues less interconnect payments to BT, of 60.0% for the period, a most satisfactory result. In Logicall, this company operates in a market that is fully competitive and without the cost of a network or switches to support, it nevertheless has delivered a gross margin of 14.6% for the period to 31 March 1997.

FINANCIAL REVIEW

The results for the year include the operational costs of Atlantic Telecommunications Ltd, for the first time. Atlantic launched its service on 30 October 1996 and the operational costs have been expensed from that date. Prior to the launch of service all costs in Atlantic have been capitalised as development costs.

Group turnover for the year fell from £10.5M to £8.9M following the sale of Coventry Cable Ltd. although the fall has been compensated in part by sales from our new telecommunications activities.

The operating loss for the group of £2.5M compared with £0.7M in the previous year reflects the increased operational costs of Atlantic, mentioned above, and is better than expectations.

As noted in the operating review, the loss for the year also includes a provision of £1.0M relating to Broadcast Satellite Television Ltd.

Net interest received for the year was £145,000 compared with interest paid of £201,000 for 1996.

This change is due mainly to interest received on deposits following the fund raising in October 1996. Increased lease finance costs are also reflected in the 1997 figures.

In April 1996, Coventry Cable Ltd. was sold to KPN. This realised approximately £7.0M of cash to the group which allowed the development and testing of the Atlantic wireless telephony operation to progress to its pre-launch phase.

This was followed in October by a successful Placing and Open Offer on the London Stock Exchange that raised £23.2M net of expenses. This funding was raised principally to finance the roll out of the Atlantic telephony network across Greater Glasgow and to provide the resources to market and operate the service in this area. The finance also provided the working capital resources for the other operations of the group.

The groups cash resources increased over the year by £18M including £16M of cash on short term deposit at 31 March 1997. As mentioned above, £23.2M was raised by way of a Placing and Open Offer. Debt and lease finance of a further £5.8M was secured to cover the acquisition of network equipment and plant, and a further £7M was raised from the sale of Coventry Cable Ltd. During the year capital expenditure amounted to almost £7.7M, excluding assets funded by leasing, and the cash outflow from operating activities was £6.3M. The net cash balance at 31 March 1997 was £16.8M which was higher than anticipated mainly due to the higher level of debt and lease finance which has been secured by the group.

In September 1996, Logicall Telecommunications Ltd. was acquired for £350,000. The acquisition was financed partly by cash and partly through the issue of loan notes. Goodwill on the acquisition of Logicall has been written off to the merger reserve.

97 annual report

ATLANTIC TELECOM GROUP PLC DIRECTORS' PROFILES, ADVISORS & COMMITTEES,
REPORT OF THE DIRECTORS,
REPORT OF THE REMUNERATION COMMITTEE,
DIRECTORS' RESPONSIBILITIES,
REPORT OF THE AUDITORS & ACCOUNTING POLICIES.

DIRECTORS' PROFILES

The following are the directors of Atlantic Telecom Group PLC:

Graham J Duncan, aged 46, is executive chairman and founder of the Group. Mr Duncan is a chartered accountant. He was involved in the co-ordination and production of the franchise application of Aberdeen Cable in 1983. In 1984 he joined that company and was its finance director from 1984 to 1986 and managing director from 1986 to 1988. In 1989 he founded BSTV and was appointed a director of that company. He has been chairman of Atlantic since 10 January 1995. He is a member, and past chairman, of the Board of the Cable Television Association (now The Cable Communications Association), which is the industry trade association in the UK. Mr Duncan is responsible for the overall strategy and development of the Group.

Gordon B Sleigh, aged 49, is group managing director of Atlantic. Mr Sleigh has worked in the cable industry for over 25 years with early experience gained in narrowband systems with Rediffusion. He joined Aberdeen Cable in 1984 and was appointed sales and marketing director of Aberdeen Cable in 1988 and managing director of BSTV in 1989. Mr Sleigh was appointed group managing director in September 1991. He is responsible for the overall operational running of the various operating companies which comprise Atlantic Telecom Group PLC.

Alisdair D McKenzie, aged 35, is group finance director. Mr McKenzie qualified as a chartered accountant in 1985. In 1988 he joined Aberdeen Cable as finance manager. In 1990 he was appointed commercial manager of Aberdeen Cable and BSTV with responsibility for finance. In September 1991 he was appointed group finance director.

Martin L Beard, aged 34, is group sales and marketing director. Mr Beard has worked in sales and marketing areas of the cable and telecommunications industry since 1985. He joined Coventry Cable as general manager in January 1992 and was appointed to the board of Atlantic on 10 January 1995. Mr Beard is responsible for overseeing the group's sales and marketing activities.

Edward J Hornsby, aged 50, is group technical director. Mr Hornsby was one of the founders of Atlantic Telecommunications Ltd. and has worked in the telecommunications industry for a number of years both in the UK and overseas. Mr Hornsby was appointed to the board of Atlantic in August 1996. Mr Hornsby is responsible for the technical activities of the group.

Nicholas Berry, aged 54, is a non executive director of Atlantic. Mr Berry is an investor and publisher. He was appointed to the board of Atlantic in January 1995. Mr Berry and his family control Stancroft Trust Limited, which together with its associates, is a significant shareholder in a number of public and private companies.

Andrew A Laing, aged 44, is a non executive director of Atlantic. Mr Laing is managing director of Aberdeen Asset Management PLC, a listed financial services company based in Aberdeen.

ADVISORS & COMMITTEES

Board of Directors

Graham J Duncan	EXECUTIVE CHAIRMAN
Gordon B Sleigh	MANAGING DIRECTOR
Alisdair D McKenzie	FINANCE DIRECTOR
Martin L Beard	SALES AND MARKETING DIRECTOR
Edward J Hornsby	TECHNICAL DIRECTOR
Nicholas Berry	NON-EXECUTIVE
Andrew A Laing	NON-EXECUTIVE

Audit Committee

Nicholas Berry	CHAIRMAN
Andrew A Laing	
Alisdair D McKenzie	

Remuneration Committee

Nicholas Berry	CHAIRMAN
Andrew A Laing	
Graham J Duncan	

Secretaries and registered office

Peterkins, Solicitors,
100 Union Street
Aberdeen, AB10 1QR

Merchant Bankers

Close Brothers Corporate Finance Ltd
12 Appold Street,
London, EC2A 2AA

Stockbrokers

Hoare Govett Corporate Finance Ltd
4 Broadgate,
London, EC2M 7LE

Bell Lawrie White & Co.,
48 St Vincent Street,
Glasgow, G2 5TS

Solicitors

Peterkins,
100 Union Street,
Aberdeen, AB10 1QR

Auditors

Grant Thornton,
Chartered Accountants &
Registered Auditors,
P O Box 151, 114 West George Street,
Glasgow, G2 1QF

Registrars

Bank of Scotland,
Registrar Services,
Apex House,
9 Haddington Place,
Edinburgh, EH7 4AL

Bankers

Bank of Scotland,
53 Castle Street,
Aberdeen, AB11 5AG

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 March 1997.

REVIEW OF BUSINESS ACTIVITIES

The company changed its name to Atlantic Telecom Group PLC on 13 August 1996 and acts as a holding company.

The group is principally engaged in the operation of cable and satellite television networks and increasingly in the development and operation of telecommunications systems and services.

A review of the business during the year together with the directors' opinion regarding future developments is included in the Chairman's Report on pages 2 to 3 and the Operating and Financial Review on pages 5 to 6.

RESULTS AND DIVIDENDS

The results for the group for the year are shown in the Profit and Loss Account on page 18. In view of the deficit on reserves the directors cannot recommend the payment of a dividend.

DIRECTORS

The directors in office during the year and their beneficial interests in the shares of the company are listed below:

	Ordinary Shares		Warrants		Ordinary Share Options	
	31.3.97	1.4.96	31.3.97	1.4.96	31.3.97	1.4.96
Graham J Duncan	7,999,999	8,675,633	1,735,126	1,735,126	–	–
Gordon B Sleigh	414,337	414,337	82,867	82,867	235,426	127,173
Alisdair D. McKenzie	–	–	–	–	179,795	95,652
Martin L. Beard	2,000	–	–	–	177,571	86,956
Edward J Hornsby (Appointed 29/8/96)	227,584	227,584*	–	–	177,571	86,956*
Nicholas Berry	7,516,270	5,840,599	988,410	1,516,119	–	–
Andrew A. Laing	–	–	–	–	–	–

* at date of appointment

In addition to the above at 31 March 1997 Nicholas Berry had a non-beneficial holding of 527,709 warrants and nil ordinary shares (1996: nil warrants and 100,000 ordinary shares).

The interests in shares, warrants and options at 1 April 1996 have been restated to reflect the consolidation in share capital which took place in October 1996, as explained in note 19 to the financial statements.

Further information with regard to warrants and options is contained in note 19 to the financial statements.

Edward J. Hornsby retires by virtue of his having been appointed as a director since the last annual general meeting and, being eligible, offers himself for re-election. Mr Hornsby has a fixed three year service contract which expires on 29 March 1998.

Andrew A Laing retires by rotation and, being eligible, offers himself for re-election. Mr Laing does not have a contract of service.

SUBSTANTIAL INTERESTS

In addition to the directors above, at 31 May 1997 the company had been notified of the following interests in 3% or more of the share capital of the company:

Name	Number	%
UKAV Continuation Fund Inc.	2,740,000	5.44
Guardian Royal Exchange plc	2,232,233	4.44
Scottish Amicable Investment Managers Limited	1,967,924	3.91
(and its holding company, Scottish Life Amicable Life Assurance Society)		

CORPORATE GOVERNANCE

The group has complied throughout the year with the provisions of the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance ("the Cadbury Code"), except that the board of the group includes only two non-executive directors who also serve on the audit committee. The group therefore does not comply with paragraph 4.3 of the Cadbury Code. The board believes that its current composition is suitable for the size of the group and is in line with the recommendations of The City Group for Smaller Companies for groups of a similar size.

Internal Financial Control

The directors have overall responsibility for the group's system of internal control and for monitoring its effectiveness.

The board receives regular reports on all financial and operational matters. The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They include:

- annual budgets approved by the board
- regular consideration by the board of actual results compared with budget
- board approval for major capital expenditure
- regular reports concerning operational and legal matters

The operation of the system of internal control is delegated to the executive directors and it is monitored and supported by the finance function. The auditors review and test the system of internal financial control and the information contained in the annual report to the extent necessary for expressing their audit opinion.

The board have reviewed the operation and effectiveness of the group's system of internal financial control for the financial year and the period up to the date of approval of the financial statements.

Going Concern

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future. The directors accordingly continue to adopt the going concern basis in preparing the consolidated financial statements.

Reporting

The auditors have confirmed that, in their opinion, with respect to the directors' statements on internal financial control and going concern above, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements above appropriately reflect the group's compliance with the other aspects of the Cadbury Code specified for their review by Listing Rule 12.43(j). They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures nor on the ability of the group to continue in operational existence.

PAYMENT POLICY

It is the company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. Trade creditors at the year end amount to 44 days of average supplies for the year.

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

No director had during, or at the end of the year, a material interest in any contract which was significant in relation to the group's business.

AUDITORS

A resolution to re-appoint Grant Thornton as auditors of the company and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

The Companies Act 1985 (as amended) provides that, in general:

- the directors may not allot shares unless they have been authorised to do so by the company in general meeting or by the articles of association of the company; and
- when shares are being issued for cash they must first be offered to existing shareholders, unless the directors have been given power by special resolution to allot shares for cash without regard to that requirement.

At the forthcoming annual general meeting on 28 August 1997, the shareholders will be invited to grant the Board authority to allot shares up to an aggregate nominal value of £5,949,532, comprising:

- up to 1,225,622 ordinary shares of 25p each in the company in aggregate in accordance with the Atlantic Telecom Group PLC Approved Executive Share Option Scheme 1995 ("the Scheme"), representing 2.4% of the total ordinary share capital of the company in issue at the date of this notice;
- up to 5,720,952 ordinary shares of 25p each in the company in aggregate pursuant to the warrants ("the Warrants") to subscribe for ordinary shares of 25p each in the company; and
- shares up to a maximum nominal value of £4,212,889, representing one third of the total ordinary share capital of the company in issue at the date of this notice.

Save in respect of any shares which may be issued pursuant to the Scheme or the exercise of the Warrants, the directors have no present intention of exercising these authorities. These authorities will expire at the fifth anniversary of the passing of the relevant resolution.

In addition, a special resolution will be proposed to empower the Board to disapply the statutory pre-emption rights and allot shares up to an aggregate nominal value of £631,933, representing 5% of the total ordinary share capital of the company in issue at the date of this notice, without first offering such shares to existing shareholders. The special resolution will also confirm the power of the directors to grant options in connection with the Scheme, and enable the company, in the event of a rights issue, to overcome certain practical difficulties which may arise in connection with fractional entitlements or in respect of overseas shareholders as a result of local laws and which prevent shares from being issued pro rata.

These powers will expire at the conclusion of the annual general meeting to be held next year or, if earlier, fifteen months after the passing of the special resolution.

The articles of association of the company contain provisions which prohibit a director from voting on any resolution concerning any contract, arrangement, transaction or other proposal in which he has a material interest (other than by virtue of his shareholding in the company), except in the case of six permitted exceptions. One of these exceptions relates to any arrangement for the benefit of employees which has been approved by the Inland Revenue (or is conditional on such approval) or does not award the director any privilege or benefit not awarded to the employees to whom such arrangement relates. In addition the present articles of association provide that these provisions may be suspended or relaxed, and any transaction not duly authorised may be ratified, by ordinary resolution of the company. The Stock Exchange requires that the element of the exception relative to a benefit which has been approved by the Inland Revenue (or is conditional on such approval) should be removed, and that any such suspension, relaxation or ratification should be by special resolution, rather than ordinary resolution. Accordingly, a further special resolution will be proposed to amend the articles of association in these respects.

By order of the Board

Peterkins
Secretaries
17 June 1997

REPORT OF THE REMUNERATION COMMITTEE

The members of the remuneration committee are detailed on page 9.

STATEMENT OF COMPLIANCE

The company has complied throughout the year with Section A of the Best Practice Provisions for remuneration committees as annexed to the Listing Rules except that the Remuneration Committee does not consist exclusively of non-executive directors. The Board contains two non-executive directors and it is therefore considered appropriate that the Executive Chairman should be a member of this committee until such time as a further non-executive director is elected to the Board.

REMUNERATION POLICY

The purpose of the Remuneration Committee is to monitor, review and determine on behalf of the Board remuneration packages for the directors. The remuneration of the Chairman is monitored and determined by the two non-executive directors on the Committee.

In framing its remuneration policy the committee has given full consideration to the provisions of Section B of the Best Practice provisions annexed to the Listing Rules.

Remuneration packages are designed to attract, motivate and retain directors of the calibre necessary to develop the group's activities and to reward them for enhancing shareholder value.

The remuneration package contains the following elements

- basic annual salary and benefits in kind
- pension provision
- share option scheme (also open to certain senior executives)

Each executive directors' basic salary is reviewed annually by the committee. In deciding upon appropriate levels of remuneration the committee has regard to rates of pay for similar jobs in comparable companies as well as internal factors such as performance.

SHARE OPTIONS

The Remuneration Committee is responsible for supervising the share option scheme and the grant of options under its terms. Options can be exercised after they have been held for a minimum period of three years, subject to achievement of the performance criteria set by the Remuneration Committee.

DIRECTORS' PENSION ARRANGEMENTS

Executive directors are members of the company pension scheme. Their dependants are eligible for death in service benefits. The scheme is a money purchase scheme and there are no outstanding payments to the scheme.

DIRECTORS' CONTRACTS

The executive directors have service contracts which are fixed three year contracts. This length of contract is considered appropriate for the company in view of the long term nature of service contracts within the telecommunications industry.

NON-EXECUTIVE DIRECTORS

The remuneration of the company's non-executive directors is determined by the Board. Non-executive directors cannot participate in the share option scheme, are not eligible to join the pension scheme and do not have a contract of service.

This report should be read in conjunction with notes 6 and 19 to the financial statements which also form part of this report.

N Berry
Chairman of the
Remuneration Committee
17 June 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the result of the group for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF ATLANTIC TELECOM GROUP PLC

We have audited the financial statements on pages 16 to 38 which have been prepared under the accounting policies set out on pages 16 and 17.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 1997 and of the result of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton Grant Thornton

Grant Thornton
Registered Auditors,
Chartered Accountants
Glasgow
17 June 1997

97 annual report

ATLANTIC TELECOM GROUP PLC FINANCIAL STATEMENTS

ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The principal accounting policies of the group have remained unchanged from the previous year and are set out below.

a) BASIS OF CONSOLIDATION

The group financial statements consolidate the financial statements of the company and of its subsidiary undertakings (see note 11). The financial statements of each company in the group have been prepared to 31 March 1997.

b) TURNOVER

Turnover is the total amount receivable by the group in the ordinary course of business with outside customers for goods supplied as a principal and for services provided, excluding VAT and trade discounts.

c) GOODWILL

Depending on the circumstances of each acquisition, consolidation goodwill is either set off directly against reserves or amortised through the profit and loss account over the directors' estimate of its useful life.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

d) DEVELOPMENT COSTS

Development costs on specific projects are capitalised when recoverability can be assessed with reasonable certainty, and amortised over the licence period of the project or its expected economic life, whichever is the shorter. All other development costs are written off in the year of expenditure.

e) DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets in equal annual instalments over the shorter of their expected useful lives or the unexpired portion of any finance leases.

The periods generally applicable are:

Networks	-	10-60 years
Leasehold improvements	-	5-13 years
Plant and equipment	-	3-10 years
Office equipment	-	5 years

f) INVESTMENTS

Fixed asset investments are shown at cost less amounts provided for diminution in value.

g) STOCKS

Stocks are stated at the lower of cost and net realisable value. Network equipment for customer installations is held in stock prior to installation. Following installation the equipment is transferred to fixed assets and depreciated over its useful life.

h) **DEFERRED TAX**

Deferred tax is the tax attributable to timing differences between profits or losses as computed for tax purposes and results as stated in the financial statements.

Deferred tax is provided to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Deferred tax is calculated at the rates at which it is estimated that the tax will be paid when the timing differences reverse.

i) **FOREIGN CURRENCIES**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Balances denominated in foreign currencies are translated at exchange rates ruling at the balance sheet date. Gains or losses on transactions are dealt with through the profit and loss account.

j) **LEASED ASSETS**

Assets held under finance leases are treated as if they had been purchased outright on credit. They are recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element which reduces the outstanding liability, and an interest charge.

Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

k) **CONTRIBUTIONS TO PENSION FUNDS**

The pension costs charged against profits represent the amounts of the contributions payable to the scheme in respect of the accounting period.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1997

	Note	£'000	1997 £'000	1996 £'000
TURNOVER				
Continuing operations:	2			
ongoing		7,690		7,302
acquisitions		950		-
		8,640		7,302
Discontinued operations		253		3,208
			8,893	10,510
Cost of Sales	3		(5,598)	(6,162)
Gross Profit			3,295	4,348
Other operating charges	3		(5,801)	(5,066)
OPERATING LOSS				
Continuing operations:				
ongoing		(2,277)		(247)
acquisitions		(172)		-
		(2,449)		(247)
Discontinued operations		(57)		(471)
			(2,506)	(718)
Exceptional items				
Continuing operations				
Provision for operations to be discontinued	4		(1,028)	-
Discontinued operations:				
Profit on sale of investments			-	107
Profit on sale of discontinued operations		3,779		
Less reinstatement of goodwill previously written off		(3,238)		
			541	-
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST			(2,993)	(611)
Net interest	5		145	(201)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(2,848)	(812)
Tax on loss on ordinary activities	7		-	5
RETAINED LOSS FOR THE FINANCIAL YEAR	20		(2,848)	(807)
LOSS PER SHARE	8		(7.35)p	(2.69)p

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 March 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
FIXED ASSETS					
Intangible assets	9	4,048		2,033	
Tangible assets	10	13,297		6,948	
			17,345		8,981
CURRENT ASSETS					
Stocks	12	1,049		126	
Debtors: amounts falling due after more than one year	13	5,366		6,813	
Debtors: amounts falling due within one year	14	2,246		1,209	
Cash at bank and in hand		17,475		50	
		26,136		8,198	
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	15	6,946		8,001	
NET CURRENT ASSETS			19,190		197
TOTAL ASSETS LESS CURRENT LIABILITIES			36,535		9,178
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16		4,946		868
			31,589		8,310
CAPITAL AND RESERVES					
Called up share capital	19		12,639		7,550
Share premium account	20		22,822		4,454
Other reserves	20		-		(2,683)
Profit and loss account	20		(3,872)		(1,011)
SHAREHOLDERS' FUNDS	21		31,589		8,310

The financial statements were approved by the Board of Directors on 17 June 1997.

G J Duncan Director

A D McKenzie Director

The accompanying accounting policies and notes form an integral part of these financial statements.

COMPANY BALANCE SHEET

As at 31 March 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
FIXED ASSETS					
Tangible assets	10	144		135	
Investments	11	25,277		24,927	
			25,421		25,062
CURRENT ASSETS					
Debtors	14	12,422		4,676	
Cash at Bank		17,434		1	
		29,856		4,677	
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	15	883		535	
NET CURRENT ASSETS			28,973		4,142
TOTAL ASSETS LESS CURRENT LIABILITIES			54,394		29,204
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16		1,588		78
			52,806		29,126
CAPITAL AND RESERVES					
Called up share capital	19		12,639		7,550
Share premium account	20		22,822		4,454
Other reserves	20		17,412		17,412
Profit and loss account	20		(67)		(290)
SHAREHOLDERS' FUNDS			52,806		29,126

The financial statements were approved by the Board of Directors on 17 June 1997.

G J Duncan Director

A D McKenzie Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1997

	Note	1997 £'000	1996 £'000
RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Operating loss from continuing activities		(2,449)	(247)
Depreciation and amortisation		952	534
Amortisation of lease prepayment		164	128
Network lease prepayments		(1,625)	(1,375)
Increase in stock		(977)	(8)
Increase in debtors		(900)	(14)
Decrease in creditors		(1,591)	(927)
Gain on disposal of fixed assets		(11)	-
Net cash outflow from continuing operating activities		(6,437)	(1,909)
Net cash inflow from discontinued operations		187	415
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(6,250)	(1,494)
CASH FLOW STATEMENT			
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(6,250)	(1,494)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	22	183	(201)
CORPORATION TAX RECOVERED		-	5
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	22	(7,704)	(2,028)
ACQUISITIONS AND DISPOSALS	22	6,818	-
MANAGEMENT OF LIQUID RESOURCES	22	(16,000)	-
FINANCING	22	24,922	703
INCREASE/(DECREASE) IN CASH	23	1,969	(3,015)

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

1. DISCONTINUED OPERATIONS/ACQUISITIONS

Discontinued operations represent the results of Coventry Cable Limited which was disposed of in April 1996.

Acquisitions represent the results of Logicall Telecommunications Limited which was acquired in September 1996.

2. TURNOVER AND LOSS ON ORDINARY ACTIVITIES

Turnover, which was all generated within the United Kingdom, can be analysed between broadband and narrowband cable networks and telecommunications services. The directors consider these to be the same class of business and accordingly no segmental analysis of operating loss or net assets is shown. Turnover comprised the following:

	1997	1996
	£'000	£'000
Broadband cable networks	5,878	7,983
Narrowband cable networks	1,927	2,527
Telecommunications services	1,088	-
	8,893	10,510

The loss on ordinary activities is stated after:

	1997	1996
	£'000	£'000
Auditors' remuneration - audit services	60	53
- non-audit services	86	35
Hire of plant and machinery	144	238
Other operating lease rentals - land and buildings	221	194
Depreciation	895	650
Depreciation capitalised on development assets	85	23
Amortisation of network lease prepayment	176	274
Amortisation of intangibles	69	-

In addition to the above the auditors received remuneration for non-audit services of £69k wihch has been charged to the share premium account.

For the year ended 31 March 1997

3. COST OF SALES AND OTHER OPERATING CHARGES

	1997				1996		
	Ongoing £'000	Acquisitions £'000	Discontinued £'000	Total £'000	Ongoing £'000	Discontinued £'000	Total £'000
Cost of sales	4,589	817	192	5,598	4,085	2,077	6,162
Other operating charges:							
Administrative expenses	3,318	206	79	3,603	2,420	1,045	3,465
Selling and distribution expenses	986	57	15	1,058	406	271	677
Depreciation and amortisation	1,074	42	24	1,140	638	286	924
	5,378	305	118	5,801	3,464	1,602	5,066

4. PROVISION FOR OPERATIONS TO BE DISCONTINUED

	1997 £'000	1996 £'000
Provision for permanent diminution in value of fixed assets	913	–
Provision for closure costs	115	–
	1,028	–

5. NET INTEREST

	1997 £'000	1996 £'000
On bank loans and overdrafts	60	17
Finance charges in respect of finance leases	334	26
Other interest payable and similar charges	60	202
	454	245
Other interest receivable and similar income	(599)	(44)
	(145)	201

For the year ended 31 March 1997

6. DIRECTORS AND EMPLOYEES

The average number of employees of the group during the year and their aggregate emoluments are shown below:

	1997 £'000	1996 £'000
Wages and salaries	2,781	2,224
Social security	270	215
Pension costs	107	87
	3,158	2,526
Less: amounts capitalised	(524)	(168)
	2,634	2,358

The average number of employees of the group during the year was 170 (1996: 156) in the following categories:

	1997 Number	1996 Number
Administration	75	76
Engineering	64	66
Sales and marketing	17	14
	156	156

Remuneration in respect of directors was:

	Salaries and fees	Benefits	Total		Pension contributions	
	1997 £'000	1997 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Executive directors						
G J Duncan (Highest paid director)	192	19	211	192	23	23
G B Sleigh	104	10	114	109	8	8
A D McKenzie	55	7	62	56	4	4
M L Beard	62	8	70	54	4	2
E J Hornsby	53	6	59	-	4	-
Non-executive directors						
N Berry	10	-	10	10	-	-
A A Laing	15	-	15	15	-	-
	491	50	541	436	43	37

The pension contributions in respect of directors are to a defined contribution scheme.

For the year ended 31 March 1997

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	The Group	
	1997 £'000	1996 £'000
Tax on franked investment income	–	(5)

Unrelieved tax losses of approximately £8M remain available to offset against future taxable trading profits.

8. LOSS PER SHARE

The calculation of loss per share is based on the loss for the financial year and on the weighted average number of ordinary shares of 25p each in issue during the year which was 38,750,906 (1996: 30,052,738 after adjustment to reflect the consolidation in share capital which took place in October 1996 as explained in note 19).

9. INTANGIBLE FIXED ASSETS

The Group

	Goodwill £'000	Development Costs £'000	Total £'000
Cost			
At 1 April 1996	444	1,589	2,033
Additions during the year	–	2,084	2,084
At 31 March 1997	444	3,673	4,117
Amortisation			
At 1 April 1996	-	-	-
Provided in the year	8	61	69
At 31 March 1997	8	61	69
Net book value at 31 March 1997	436	3,612	4,048
Net book value at 31 March 1996	444	1,589	2,033

Goodwill and development costs relate to the acquisition of Atlantic Telecommunications Limited and the development of its telecommunications network. These costs are being amortised following the launch of commercial service over the licence period of 25 years.

For the year ended 31 March 1997

10. TANGIBLE FIXED ASSETS

	Networks £'000	Leasehold Improvements £'000	Plant & Equipment £'000	Office Equipment £'000	Group Total £'000	Company Total £'000
Cost						
At 1 April 1996	5,237	391	4,215	337	10,180	195
Additions	5,856	100	3,393	218	9,567	71
Disposals	(12)	-	(135)	(14)	(161)	(61)
Addition of subsidiary undertaking	22	-	92	3	117	-
Disposal of subsidiary undertaking	(909)	-	(1,130)	(139)	(2,178)	-
At 31 March 1997	10,194	491	6,435	405	17,525	205
Depreciation						
At 1 April 1996	1,013	309	1,618	292	3,232	60
Charge for year	311	38	588	43	980	44
Provision for permanent diminution	913	-	-	-	913	-
Disposals	-	-	(82)	(8)	(90)	(43)
Disposal of subsidiary undertaking	(54)	-	(616)	(137)	(807)	-
At 31 March 1997	2,183	347	1,508	190	4,228	61
Net book value at 31 March 1997	8,011	144	4,927	215	13,297	144
Net book value at 31 March 1996	4,224	82	2,597	45	6,948	135

The net book value of tangible assets includes amounts in respect of assets held under finance leases as follows:

	Networks £'000	Leasehold Improvements £'000	Plant & Equipment £'000	Office Equipment £'000	Group Total £'000	Company Total £'000
Net book value at 31 March 1997	2,418	-	2,134	95	4,647	129
Net book value at 31 March 1996	-	-	1,425	14	1,439	117
Depreciation charge for the year	61	-	333	29	423	35

The company total is made up of assets comprising entirely of plant and equipment.

For the year ended 31 March 1997

11. FIXED ASSET INVESTMENTS

Company

	Shares In Group Undertakings £'000
Cost	
At 1 April 1996	25,177
Additions	350
At 31 March 1997	25,527
Amounts written off	
At 1 April 1996 and 31 March 1997	250
Net book value at 31 March 1997	25,277
Net book value at 31 March 1996	24,927

At 31 March 1997 the group held 100% of the equity of the following trading companies, all of which are registered and operate in Great Britain.

		Proportion Held		
Name of Company	Class of Share Capital Held	By parent undertaking	By subsidiary undertaking	Nature of Business
Devanha Group plc	Ordinary Shares	100%	-	Holding Company
Atlantic Telecommunications Ltd	"	100%	-	Telecommunications
Logicall Telecommunications Ltd	"	100%	-	Telecommunications
Aberdeen Cable Services Ltd	"	-	100%	Operation of cable TV networks
Broadcast Satellite Television Ltd	"	-	100%	Operation of cable TV networks

For the year ended 31 March 1997

12. STOCKS

	The Group 1997 £'000	The Group 1996 £'000
Consumable stores	194	126
Network equipment	855	-
	1,049	126

13. DEBTORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group 1997 £'000	The Group 1996 £'000	The Company 1997 £'000	The Company 1996 £'000
Network lease prepayments	5,055	6,813	-	-
Other debtors	311	-	-	-
	5,366	6,813	-	-

The network lease prepayments represent the excess of payments over the annual amortised charge which is written off to the profit and loss account in equal annual instalments over the life of the lease (see note 29).

14. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 1997 £'000	The Group 1996 £'000	The Company 1997 £'000	The Company 1996 £'000
Trade debtors	582	769	1	-
Amounts due from subsidiary undertakings	-	-	12,059	4,653
Other debtors	1,046	89	200	-
Prepayments	609	247	153	23
Other taxes	9	104	9	-
	2,246	1,209	12,422	4,676

For the year ended 31 March 1997

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 1997 £'000	The Group 1996 £'000	The Company 1997 £'000	The Company 1996 £'000
Unsecured loan notes	200	-	200	-
Bank term loan	400	-	400	-
Bank overdrafts	694	1,238	48	82
Trade creditors	2,026	2,812	74	82
Amounts owed to subsidiary undertakings	-	-	-	169
Social security and other taxes	210	500	25	82
Other creditors	132	146	-	-
Accruals and deferred income	2,124	2,912	96	91
Amounts due under finance leases	1,160	393	40	29
	6,946	8,001	883	535

The group bank overdrafts and loans are secured by bonds and floating charges over all the assets of the group companies. The company's bank overdraft is secured by cross guarantees which are in place between the company and its subsidiaries.

The unsecured loan notes carry interest at 6.25% until 8 September 1998 and 8% thereafter. They are repayable, at par, on either 31 March or 30 September between 31 March 1998 and 8 September 2001 on not less than one month's notice from the note holder.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group 1997 £'000	The Group 1996 £'000	The Company 1997 £'000	The Company 1996 £'000
Bank term loan	1,500	-	1,500	-
Amounts due under finance leases	3,446	868	88	78
	4,946	868	1,588	78

For the year ended 31 March 1997

17. BORROWINGS

Borrowings are repayable as follows:

	The Group 1997 £'000	The Group 1996 £'000	The Company 1997 £'000	The Company 1996 £'000
Within one year				
Unsecured loan notes	200	-	200	-
Bank borrowings	1,094	1,238	448	82
Finance leases	1,160	393	40	29
After one and within two years				
Bank borrowings	400	-	400	-
Finance leases	1,278	348	48	28
After two and within five years				
Bank borrowings	1,100	-	1,100	-
Finance leases	2,168	520	40	50
	7,400	2,499	2,276	189

18. PROVISIONS FOR LIABILITIES AND CHARGES

The Group

Deferred taxation

Deferred taxation provided in the financial statements is set out below.

	Accelerated Capital Allowances £'000	Other Timing Differences £'000	Trading Losses £'000	Total £'000
At 1 April 1996	511	55	(566)	-
Provided during the year	23	(20)	(3)	-
At 31 March 1997	534	35	(569)	-

For the year ended 31 March 1997

19. SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised		
80,000,000 ordinary shares of 25p each (1996: 241,900,000 ordinary shares of 5p each)	20,000	12,095
Allotted, called up and fully paid		
50,554,673 ordinary shares of 25p each (1996: 150,991,505 ordinary shares of 5p each)	12,639	7,550

On 28 October 1996 the company passed a resolution to consolidate the ordinary shares of 5p each into ordinary shares of 25p each and to increase the authorised share capital to £20M.

On 28 October 1996 the company made an allotment of 20,132,200 ordinary shares of 25p at a price of 125p per share by way of a Placing and Open Offer. The difference between the total consideration of £25,165k less the expenses of issue, and the total nominal value of £5,033k has been credited to the share premium account.

As a result of the consolidation of the share capital, warrants and share options in place at that time were adjusted. Prior to consolidation, every warrant carried the entitlement to subscribe for one ordinary share of 5p at a price of 27p. This was adjusted to become one warrant being entitled to subscribe for one ordinary share of 25p at the adjusted subscription price of 133p.

The existing share options were also adjusted so that every option to subscribe for five ordinary shares of 5p at a price of 23p became an option to subscribe for one ordinary share of 25p each at an adjusted exercise price of 115p.

On 17 March 1997 the company allotted 8,913 ordinary shares of 25p at a price of 115p by way of an exercise of options. The difference between the total consideration of £10k and the total nominal value of £2k has been credited to the share premium account. This exercise of share options was permitted under the scheme rules as they were held by an employee of Coventry Cable Ltd which was disposed of during the year.

On 27 March 1997 the company allotted 215,259 ordinary shares of 25p at a price of 133p per share in respect of 215,259 warrants exercised. The difference between the total consideration of £287k and the total nominal value of £54k has been credited to the share premium account. In addition to the future periods of exercise noted below, warrants were exerciseable during the same periods in 1996.

Contingent rights to the allotment of shares

The company issued warrants on 10 January 1995 to all Ordinary Shareholders at that date to subscribe for 29,681,059 of Ordinary Shares at 27p per share. (Adjusted to 5,936,211 at an exercise price of 133p following the consolidation of share capital described above).

Warrants are exercisable on the first dealing day after the last day of the following periods:

i) the months of June and December 1997, and the month of June 1998;

ii) the period of thirty days commencing on the day following publication of the preliminary announcement of the final results of the company for each of the years ending 31 March 1997 and 1998; and

iii) the period of thirty days commencing on the day following publication of the interim results of the company for the six month period ending 30 September 1997.

As mentioned above 215,259 warrants were exercised during the year.

For the year ended 31 March 1997

19. SHARE CAPITAL (continued)

The company has granted options to certain directors and employees in respect of the following:

Date option granted	Option price per share	Period of exercise	Conditions of Exercise	Number of shares Total	Directors
30 March 1995	115p	30 March 1998 - 30 March 2005	Share price exceeds 135p	587,822	396,737
28 February 1997	154½p	28 February 2000 - 28 February 2007	Annual operating profit exceeds £2M	682,365	373,626

Ordinary share options have been granted to directors as follows:

	Options Held		Date Options granted	
	31.3.97	**1.4.96**	**28.2.97**	**30.3.95**
Gordon B Sleigh	235,426	127,173	108,253	127,173
Alisdair D. McKenzie	179,795	95,652	84,143	95,652
Martin L. Beard	177,571	86,956	90,615	86,956
Edward J. Hornsby	177,571	86,956*	90,615	86,956

*at date of appointment

The middle market price of the shares at 31 March 1997 was 149.5p. The highest price during the year was 160p and the lowest price during the year was 82.5p. The lowest price during the year has been adjusted to reflect the consolidation in share capital which took place in October 1996.

20. SHARE PREMIUM ACCOUNT AND RESERVES

The Group

	Share Premium Account £'000	Merger Reserve £'000	Profit & Loss Account £'000
At 1 April 1996	4,454	(2,683)	(1,011)
Premium on shares issued during the year (See Note 19)	20,373	-	-
Costs relating to issue	(2,005)	-	-
Retained Loss for the year	-	-	(2,848)
Goodwill reinstatement on disposal of subsidiary	-	3,238	-
Goodwill written off on acquisition of subsidiary	-	(568)	-
Other transfers	-	13	(13)
At 31 March 1997	22,822	-	(3,872)

The cumulative amount of goodwill arising from acquisitions which has been written off to group reserves to date is £17,425k (1996: £20,095k).

The parent company has taken advantage of section 230 Companies Act 1985 and has not included its own profit and loss account in these financial statements. The group loss for the year includes a profit of £223k which is dealt with in the financial statements of the company.

For the year ended 31 March 1997

20. SHARE PREMIUM ACCOUNT AND RESERVES (continued)

The Company

	Share Premium Account £'000	Merger Reserve £'000	Profit & Loss Account £'000
At 1 April 1996	4,454	17,412	(290)
Premium on shares issued during the year (see Note 19)	20,373	-	-
Costs relating to issue	(2,005)	-	-
Retained profit for the year	-	-	223
At 31 March 1997	22,822	17,412	(67)
Distributable Reserves	-	(734)	(67)
Non-Distributable Reserves	22,822	18,146	-

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Loss for the financial year	(2,848)	(807)
Issue of shares net of expenses	23,457	(30)
Reinstated goodwill on disposal of subsidiary	3,238	-
Goodwill written off to reserves on acquisition of subsidiary	(568)	-
Net increase/(decrease) in shareholders' funds	23,279	(837)
Shareholders' funds at 1 April 1996	8,310	9,147
Shareholders' funds at 31 March 1997	31,589	8,310

For the year ended 31 March 1997

22. ANALYSIS OF CASH FLOW HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1997		1996	
	£'000	£'000	£'000	£'000
Returns on investments and servicing of finance				
Interest received	471		44	
Interest paid	(288)		(245)	
Net cash inflow/(outflow) from returns on investments and servicing of finance		183		(201)
Capital expenditure and financial investment				
Purchase of intangible fixed assets	(1,999)		(1,017)	
Purchase of tangible fixed assets	(5,787)		(1,694)	
Sale of tangible fixed assets	82		79	
Sale of investments	-		604	
Net cash outflow from capital expenditure and financial investment		(7,704)		(2,028)
Acquisitions and disposals				
Acquisition of subsidiary undertaking (see note 26)	(117)		-	
Loan repaid on purchase of subsidiary	(85)		-	
Sale of subsidiary undertaking (see note 27)	1,980		-	
Receipt of inter-company debtor on disposal of subsidiary	5,040		-	
Net cash inflow from acquisitions and disposals		6,818		-
Management of liquid resources				
Cash placed on short term deposit		(16,000)		-
Financing				
Issue of shares	25,462		-	
Receipt from borrowing	2,000		1,194	
Repayment of borrowing	(100)		-	
Capital element of finance lease rentals	(435)		(461)	
Expenses paid in connection with share issue	(2,005)		(30)	
Net cash inflow from financing		24,922		703

For the year ended 31 March 1997

23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	1997 £'000	1996 £'000
Increase/(decrease) in cash in the period	1,969	(3,015)
Cash outflow from increase in liquid resources	16,000	-
Cash inflow from increase in debt	(1,900)	-
Cash outflow from lease financing	435	461
Change in net funds/(debt) resulting from cash flows	16,504	(2,554)
Inception of finance leases	(3,780)	(1,519)
Issue of loan notes	(200)	-
Movement in net funds/(debt) in the year	12,524	(4,073)
Net funds/(debt) at 1 April 1996	(2,449)	1,624
Net funds/(debt) at 31 March 1997	10,075	(2,449)

24. ANALYSIS OF NET FUNDS/(DEBT)

	At 1 April 1996	Cash Flow	Non-cash items	At 31 March 1997
Cash	50	17,425	-	17,475
Less cash on deposit	-	(16,000)	-	(16,000)
	50	1,425	-	1,475
Bank overdraft	(1,238)	544	-	(694)
	(1,188)	1,969	-	781
Liquid resources				
Cash on short term deposit	-	16,000	-	16,000
	(1,188)	17,969	-	16,781
Debt due after one year	-	(1,500)	-	(1,500)
Debt due within one year	-	(400)	(200)	(600)
Finance leases	(1,261)	435	(3,780)	(4,606)
	(1,261)	(1,465)	(3,980)	(6,706)
Net funds	(2,449)	16,504	(3,980)	10,075

For the year ended 31 March 1997

25. MAJOR NON-CASH TRANSACTIONS

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £3,780k (1996: £1,519k).

Part of the consideration for the purchase of subsidiary undertakings comprised loan notes. Further details of this acquisition are given in note 26 below.

26. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 9 September 1996 the company acquired the whole of the share capital of Logicall Telecommunications Ltd ("Logicall") for a consideration of £350k, satisfied by the issue of £200k of loan notes and £150k in cash. Goodwill arising on the acquisition of Logicall has been written off to reserves. The purchase of Logicall has been accounted for by the acquisition method of accounting.

The loss after taxation of Logicall for the period from 1 July 1996, the beginning of the subsidiary's financial year, to the date of acquisition was £26k. The loss after taxation for the year ended 30 June 1996 was £164k.

	Book Value £'000	Accounting Policy Adjustments £'000	Adjusted Value £'000
Fixed assets	29	88	117
Stock	5	-	5
Debtors	173	-	173
Cash at bank	33	-	33
Creditors	(461)	-	(461)
Loans	(85)	-	(85)
	(306)	88	(218)
Goodwill			568
Purchase consideration			350

	£'000
Satisfied by:	
Cash	150
Loan notes	200
	350
Analysis of net cash outflow in respect of acquisition of subsidiary undertaking	
Cash	150
Cash acquired	(33)
	117

The policy with regard to the accounting for customer installation costs was changed following acquisition. These costs, which were previously written off, are now capitalised and written off over three years. This resulted in an adjustment to fixed assets of £88k as noted above.

For the year ended 31 March 1997

27. SALE OF SUBSIDIARY UNDERTAKING

During the year the company disposed of its interest in Coventry Cable Ltd. The Group loss includes a loss of £57k up to the date of its disposal on 29 April 1996

	£'000
Net assets disposed of:	
Fixed assets	1,371
Stock	66
Debtors due after more than one year	3,206
Debtors due within one year	541
Cash at bank	87
Creditors	(6,383)
	(1,112)
Gain on sale	3,779
	2,667
Satisfied by:	
Cash	2,067
Deferred consideration	600
	2,667
Analysis of cash inflow in respect of disposal of subsidiary undertaking	
Cash	2,067
Less cash in subsidiary on disposal	(87)
	1,980

28. CAPITAL COMMITMENTS

At 31 March 1997 the group had contracted for £4,159k (1996: £800k) of capital expenditure not provided for in these financial statements.

For the year ended 31 March 1997

29. LEASING COMMITMENTS

a) **Cable Network Lease**

The lease for the cable network operated by Aberdeen Cable Services Ltd is treated as an operating lease with a life equal to the length of the lease, of 99 years. Total payments due under the lease agreement are amortised and spread the cost of finance equally over the term of the lease (see note 13). Under the terms of the lease there is an option, but not a requirement, for the company to make an advance payment in respect of future rentals for primary and secondary lease payments.

Having reviewed the terms of the network lease, the directors consider it prudent not to recognise the discount available to the group from exercising the advance payment option in respect of the primary period rentals. It remains the intention of the directors that the advance payment option in respect of secondary rentals for approximately £3.3M is exercised in 2001. This sum has been calculated in accordance with the advance payment provisions of the lease.

The estimate upon which the calculation of the charge is based is reviewed annually. Any additional costs arising from a change in this estimate will be amortised and spread in equal annual instalments over the remaining life of the lease.

The operating lease commitment due within one year in respect of the period prior to prepayment of the secondary lease is £1,875k (1996: £1,625k).

b) At 31 March 1997 the group had commitments under non-cancellable operating leases to pay the following amounts in the year to 31 March 1998:

	1997		1996	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Expiring within one year	66	20	19	98
Expiring between two and five years	147	97	84	118
Expiring in five years or more	229	-	238	-
	442	117	341	216

30. CONTINGENT LIABILITIES

In addition to the disclosure in note 15 the holding company had provided guarantees in respect of subsidiary company borrowings amounting to £3.4M at 31 March 1997 (1996: £Nil).

31. PENSION COMMITMENTS

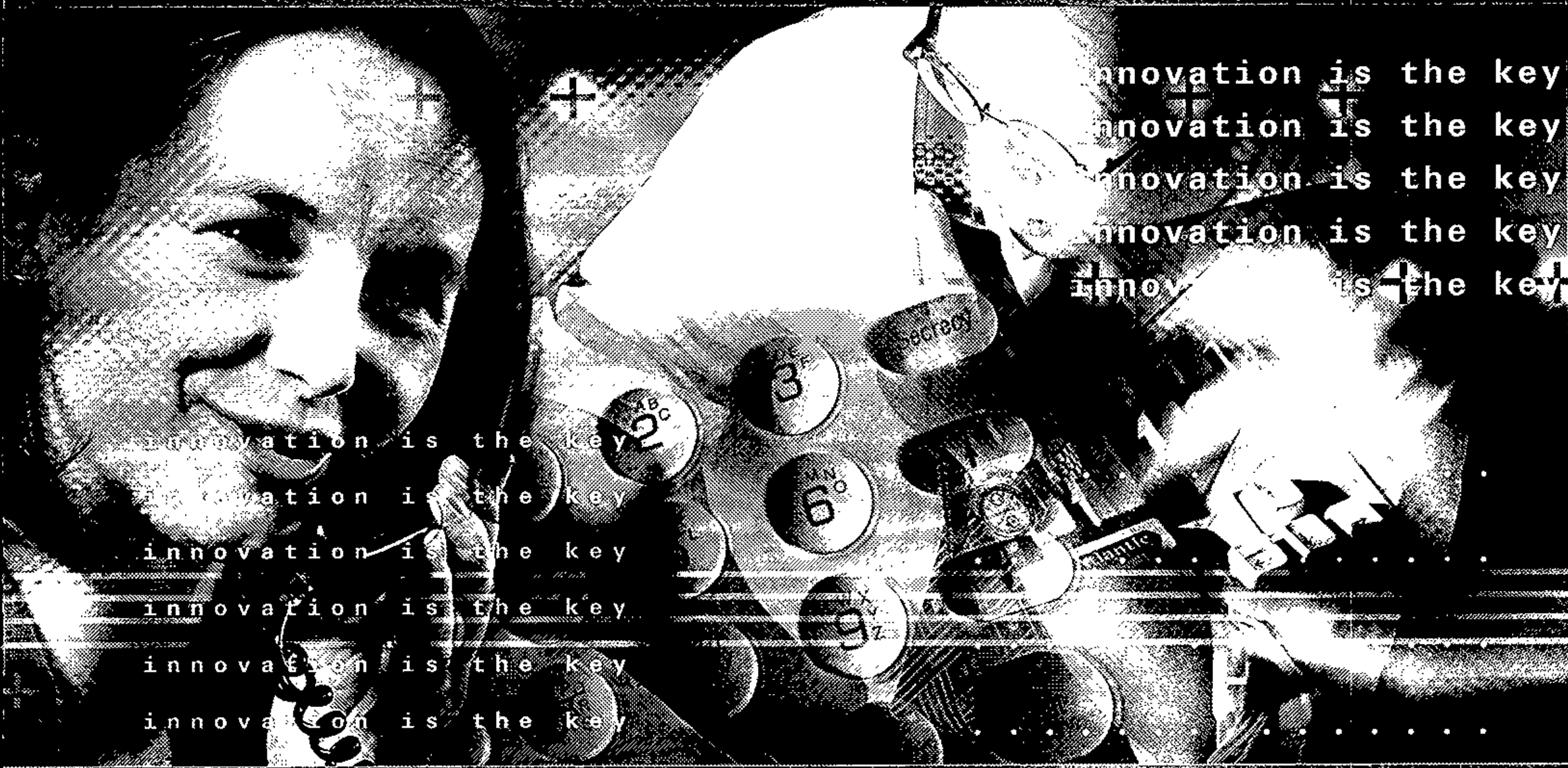
The group operates a defined contribution pension scheme for directors and certain employees. The assets of the scheme are administered by trustees in a fund independent from those of the group. No contributions were payable to the fund at the year end. The pension charge for the year was £107k (1996: £87k).

32. TRANSACTIONS WITH DIRECTORS

Mr Berry, a non-executive director of the company, agreed to participate as a placee and underwriter in the Placing and Open Offer in October 1996. Mr Berry received commission of £25,000 from the company.

97 annual report

ATLANTIC TELECOM GROUP PLC FIVE YEAR SUMMARY



FIVE YEAR SUMMARY OF OPERATIONS

This note summarises the results of the group's cable television and telecommunications activities for the five years ended 31 March 1997.

	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000
Turnover	8,893	10,510	9,851	9,661	8,998
Cost of sales	(5,598)	(6,162)	(5,447)	(4,802)	(3,956)
Gross profit	3,295	4,348	4,404	4,859	5,042
Operating costs	(5,801)	(5,066)	(4,621)	(4,604)	(4,592)
Operating (loss)/profit	(2,506)	(718)	(217)	255	450
Exceptional items and gain on investments	(487)	107	-	544	-
	(2,993)	(611)	(217)	799	450
Net interest	145	(201)	(461)	(407)	(222)
(Loss)/profit on ordinary activities before taxation	(2,848)	(812)	(678)	392	228

The directors regard earnings before interest, tax, depreciation and amortisation, which is set out below and is often used in the cable and telecommunications industry, as an important measure of the operating cash flow of the business.

	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000
Operating (loss)/profit	(2,506)	(718)	(217)	255	450
Depreciation, and amortisation of goodwill	964	650	661	671	712
Amortisation of network leases	176	274	274	274	274
Earnings before interest, tax, depreciation and amortisation	(1,366)	206	718	1,200	1,436

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Atlantic Telecom Group PLC (registered number 20509 and hereinafter referred to as "the company"), registered office 100 Union Street, Aberdeen AB10 1QR, will be held at the offices of Citigate Communications Ltd, 26 Finsbury Square, London, EC2A 1DS on Thursday 28th August at 2.30 p.m.

The Business of the Meeting will be

1. To receive the directors' report and statement of accounts and the auditors' report thereon.

2. To re-appoint Mr E J Hornsby as a director.

3. To re-appoint Mr A A Laing as a director.

4. To re-appoint the auditors, Grant Thornton, and to authorise the directors to fix the remuneration of the auditors.

5. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:-

   THAT, pursuant to and in accordance with section 80 of the Companies Act 1985 (as amended) ("the Act"), the directors be and they are hereby authorised generally and unconditionally to exercise all or any powers of the Company to allot relevant securities up to an aggregate nominal value of £5,949,532 to such persons at such times and on such terms or otherwise as they think proper during the period commencing on the date of the passing of this resolution and expiring at the fifth anniversary thereof, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority had not expired, and this authority shall be to the exclusion of and in substitution for all existing authorities under section 80 of the Act.

6. Subject to the passing of resolution 5 above, to consider and, if thought fit, to pass the following resolution as a special resolution:-

   THAT, pursuant to section 95 of the Companies Act 1985 (as amended) ("the Act"), the directors be and they are hereby empowered to allot for cash equity securities (as defined for the purposes of section 89 of the Act) pursuant to the authority conferred on them in resolution 5 above as if section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:-

   (a) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders and so that for this purpose "rights issue" means an offer of equity securities open for acceptance for a period fixed by the directors to holders of equity securities on the register on a fixed record date in proportion to their respective holdings of such securities or in accordance with the rights attached thereto but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlement or legal or practical problems under the law of, or the requirements of any recognised regulatory body or any stock exchange in, any territory;

   (b) the granting of options in connection with the Atlantic Telecom Group PLC Approved Executive Share Option Scheme 1995; and

   (c) the allotment (otherwise than pursuant to paragraphs (a) and (b) of this resolution) of equity securities up to an aggregate nominal value of £631,933,

   and shall expire at the earlier of the expiry of 15 months from the date of the passing of this resolution and the conclusion of the annual general meeting next following such date provided that the Company may make prior to the expiry thereof any offer or agreement which would or might require any such securities to be allotted otherwise than in accordance with section 89(1) of the Act after the expiry of this power and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired, and this power shall be to the exclusion of and in substitution for all existing powers under section 95 of the Act.

7. To consider and, if thought fit, to pass the following resolution as a special resolution:-

THAT the Articles of Association of the Company be amended in the following manner:-

(a) the words "has been approved by the Inland Revenue or is conditional upon such approval or" shall be deleted from Article 127.3.5; and

(b) the word "ordinary" shall be deleted from Article 127.7 and the word "special" substituted therefor.

100 Union Street
Aberdeen
AB10 1QR

17 June 1997

By order of the Board
Peterkins
Secretaries

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. A form of proxy accompanies this notice of Annual General Meeting. Lodgement of a form of proxy will not preclude a member from attending and voting in person at the meeting if he or she wishes to do so.

2. To be valid the enclosed form of proxy must be completed and lodged together with the power of attorney or other authority (if any) under which it is signed, or a duly certified copy of such authority, with the Bank of Scotland Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL so as to arrive not later than 48 hours before the time fixed for the meeting.

3. Copies of service contracts of the directors with the Company and any subsidiaries not expiring without payment of compensation within one year will be available for inspection at the registered office during normal business hours until the conclusion of the meeting.